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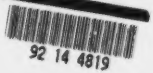

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[Mark One]
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-18355

DE NOVO CORPORATION
(Exact name of registrant as specified in its charter)

Ontario, Canada
(State or other jurisdiction of incorporation or organization)

208 Wycroft Road, Oakville, Ontario L6K 3T8
(Address of principal executive offices)
(Zip Code)

98-0002060
I.R.S. Employer Identification Number)

(416) 849-9622
(Registrant's telephone number, including area code)

BEST ENERGY SYSTEMS INC.
(Former name, former address and former fiscal year, if changed since last re.

PROCESSED BY
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and has been subject to such filing requirements for the past 90 days.

Yes..X.. No....

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. (See Financial Statements attached.)

# of shares: 8,862,018

BEST COPY
AVAILABLE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DENOVO CORPORATION

DATE: May 14, 1992

DENOVO CORPORATION
Edward J. Tobin,
President

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements:

The following statements have been attached to this form.
All financial information, unless specifically stated otherwise, is expressed in Canadian dollars.

- Unaudited Balance Sheets as of March 31, 1992 and the Audited Balance Sheet December 31, 1991.
- Unaudited Statement of Loss and Deficit for three months ended March 31, 1992 and 1991.
- Unaudited Statement of Changes in Financial Position for the three months ended March 31, 1992 and 1991.
- Condensed Notes to the Unaudited Financial Statements.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

On January 31, 1992, the Company reached agreement to acquire approximately 14.8 million shares of Consumers Paper Corp. ("Consumers") from Consumers and certain of its shareholders. Under the terms of the agreement, DeNovo subsequently acquired 6 million new shares for cash of $1.5 million, and 5.0 million shares from existing Consumer shareholders in exchange for approximately 1,869,000 shares of the Company with an aggregate value of $3,078,000.

The cash portion of the investment by DeNovo is Consumer came from DeNovo's current cash balances. As this was the major portion of DeNovo's liquid assets, DeNovo conducted a private placement of 636,667 common shares raising approximately 1.1 million. As a result of these transactions, the Company holds approximately 70% of the common shares of Consumers. The Company has agreed to invest additional cash of $2.5 million for 4 million new shares upon certain project milestones. This will increase the Company's ownership of Consumers to approximately 75%.

Consumers is currently developing an integrated tissue and recycled pulp plant in Alberta. The project's capital budget is approximately $45 million, expected to be financed through debt ($31 million), economic development grants ($1 million), an interest free loan from the federal government ($5 million) and equity ($8 million). The Company and Consumers are currently negotiating the terms of this financing with third parties.

The first three months of 1992 compared to the first three months of 1991

Results of Operations

Revenues for the first three months ending March 31, 1992 increased to $141,000 (1991 - $53,000). These revenues result from the completion of the Guelph Utility Pole contract.

Costs and other expenses increased to $274,000 from $120,000 due to the costs of the Guelph Utility Pole project and increased selling and administration costs associated with the Recycling Divisions activities in developing the Consumers Paper project.

Interest and other income increased due to the higher cash and short term deposit balances as a result of the private placement. No provision has been made for income tax as no tax liability arose for the current period.

Financial Condition at March 31, 1992

The Balance Sheet at March 31, 1992 changed significantly from December 31, 1991 due to the acquisition of Consumers.

Cash and short term deposits increased to $1,567,000 at March 31, 1992 (December 31, 1991 - $967,000). This increase is due to the private placement of common shares and the receipt of the Union Carbide settlement (listed in other receivables at December 31, 1991) less the cash invested in the Consumer's acquisition to date.

Accounts receivable have increased to $136,000 at March 31, 1992 from $46,000 at December 31, 1991 due to the final billings on the Guelph Utility Pole contract.

Deposits and prepaid expenses increased from $26,000 at December 31, 1991 to $907,000 at March 31, 1992 due to deposits on equipment made by Consumers (see note 4).

Property, Plant and Equipment, Goodwill and Current Liabilities increased significantly from December 31, 1991 to March 31, 1992 due to the Consumers acquisition (see note 7).

The Mortgage payable recorded at March 31, 1992 is on the land and building of Consumers (see note 5).

The Minority Interest balance at March 31, 1992 reflects the 30% interest the minority shareholders of Consumers have in the net assets of Consumers at March 31, 1992.

Capital stock increased in the quarter due to the private placement of $1,100,000 and the issuance of new DeNovo shares that were exchanged for Consumers shares in the acquisition of Consumers, (note 6 and 7).

PART II OTHER INFORMATION

None

NO OTHER EXHIBITS OR INFORMATION.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

March 31, 1992

UNAUDITED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 1992 and AUDITED BALANCE SHEET FOR DECEMBER 31, 1991
(Expressed in Canadian Dollars)

	MARCH 31, 1992	DECEMBER 31, 1991
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	$1,017,000	$967,000
Restricted short-term deposits (note 4)	550,000	-
Accounts receivable	136,000	46,000
Other receivables	-	493,000
Inventories	12,000	12,000
Deposits and prepaid expenses (note 4)	907,000	26,000
	2,622,000	1,544,000
NOTES RECEIVABLE	47,000	55,000
PROPERTY, PLANT & EQUIPMENT At cost less accumulated depreciation of $334,000 (1991 - $324,000)	2,537,000	298,000
GOODWILL - at cost less accumulated amortization of $33,000 (1991 - $25,000) (note 7)	4,541,000	138,000
LICENCE, TECHNOLOGY AND KNOW-HOW At cost, less accumulated amortization $101,000 (1991 - $91,000) (note 6)	438,000	448,000
	$10,185,000	$3,483,000
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$1,594,000	102,000
Due to subsidiary shareholders	145,000	-
Notes payable	35,000	-
Current portion - Mortgage payable	50,000	-
	1,824,000	102,000
MORTGAGE PAYABLE (note 5)	736,000	-
MINORITY INTEREST	178,000	-
	2,738,000	102,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)	9,839,000	5,661,000
DEFICIT	(2,392,000)	(2,280,000)
TOTAL SHAREHOLDERS' EQUITY	7,447,000	3,381,000
	$10,185,000	$3,483,000

UNAUDITED CONSOLIDATED STATEMENT OF LOSS AND DEFICIT FOR THE QUARTER ENDED MARCH 31, 1992 and MARCH 31, 1991
(Expressed in Canadian Dollars)

	THREE MONTHS ENDED MARCH 31	
	1992	1991
	$	$
REVENUE	141,000	53,000
COSTS AND EXPENSES		
Cost of sales	97,000	33,000
Selling and administration	139,000	73,000
Amortization	38,000	14,000
	274,000	120,000
LOSS FROM OPERATIONS	133,000	67,000
Interest and other income	21,000	8,000
NET LOSS FOR THE PERIOD	112,000	59,000
DEFICIT - BEGINNING OF PERIOD	2,280,000	2,135,000
DEFICIT - END OF PERIOD	2,392,000	2,194,000
LOSS PER SHARE	0.01	0.02

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE THREE MONTHS ENDED MARCH 31, 1991 and MARCH 31, 1992
(Expressed in Canadian Dollars)

	THREE MONTHS ENDED MARCH 31	
	1992	1991
	$	$
OPERATING ACTIVITIES		
Loss for the period	112,000	$59,000
Items not affecting cash - Amortization	28,000	14,000
	84,000	45,000
Net increase (decrease) in non-cash working capital balances related to operations	(246,000)	(74,000)
Cash (used in) provided by operating activities	(330,000)	(29,000)
INVESTMENT ACTIVITIES		
Acquisition of company	(3,078,000)	-
Purchase of Minority Interest	(178,000)	-
Repayment of note	8,000	-
Acquisition of fixed assets	-	(3,000)
Cash (used in) investment activities	(3,248,000)	(3,000)
FINANCING ACTIVITIES		
Issuance of common shares	4,208,000	1,197,000
Share issue expense	(30,000)	-
Cash provided by financing activities	4,178,000	1,197,000
Increase in Cash during the Period	600,000	1,223,000
Net Cash - Beginning of Year	967,000	192,000
Net Cash - End of Period	1,567,000	1,415,000

Net cash consists of cash and short term deposits.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED March 31, 1992
(Expressed in Canadian Dollars)

1. The information presented in the accompanying consolidated Financial Statements has not been audited by independent chartered accountants. In the opinion of the Company, the unaudited consolidated financial statements for the three months ended March 31, 1992 incorporate all adjustments necessary to present fairly the financial position of the Company, the results of its operations and the changes in its financial position for the three months ended March 31, 1992 in accordance with accounting principles generally accepted in Canada which differ in some respects from accounting principles generally accepted in the United States, the effect of which is explained in Note 7. The consolidated balance sheet at December 31, 1991 has been taken from the Company's audited financial statements as at December 31, 1991. The accompanying financial statements should be read in conjunction therewith.

2. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

3. **Significant Accounting Policies**

   a) **Basis of Consolidation -**

   The consolidated financial statements include the accounts of DeNovo Corporation (the "Company" - formerly Best Energy Systems Inc.), its wholly-owned subsidiary, DeNovo Corporation (USA) ("DeNovo USA" - formerly STK Recycling Ltd.), a U.S. company engaged in recycling project development, and Consumers Paper Corp. (Consumers). The company acquired Consumer's late in the first quarter and as at March 31, 1992 held 70%. (see note 7).

   b) **Inventories -**

   Inventories consist of raw materials are stated at the lower of actual cost and replacement value.

   c) **Contracts in Progress -**

   The percentage of completion method is used to account for contracts in progress when related costs can be reasonably estimated. The completed contracts method is used for certain contracts for which related costs cannot be reasonably estimated. A contract is considered complete when products are delivered or required reports are produced.

   d) **Amortization -**

   Property, Plant and Equipment amortization is provided using the following methods at rates designed to amortize the cost of equipment over its estimated useful life:

Office furniture and fixtures	Diminishing balance basis	20% per annum
Machinery and equipment	Diminishing balance basis	20% per annum
Equipment leased to third parties -		
Monitoring equipment	Straight-line basis	2 years
Heat exchanger equipment	Straight-line basis	10 years

3. Significant Accounting Policies (cont'd)

d) Amortization (cont'd)

The subsidiary company, Consumers is in a pre-operating stage and has not recorded amortization on its assets as the plant has not commenced operations.

e) Goodwill

The excess of cost of investment in the subsidiary company, DeNovo (USA), over the fair value of the net assets acquired is recorded as goodwill and is being amortized over its estimated life of five years using the straight-line method. The excess cost of the investment in the subsidiary company (Consumers) over the fair-value of the net assets acquired is also recorded as goodwill and is being amortized over its estimated life of twenty years using the straight line method.

f) License, technology and know-how -

Purchased technology and know-how is recorded at cost and amortized over the revenue producing life of the license (15 years) and related products (to a maximum of five years).

g) Foreign currency translation -

Revenues and expenses arising from a foreign currency transaction are translated into Canadian dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities at each balance sheet date are translated using the rate in effect at the balance sheet date. Related exchange gains or losses are included in the determination of earnings.

h) Earnings per share -

The computation of earnings per share is based on the weighted average number of common shares outstanding during the period.

4. Option on Equipment

On April 19, 1990, a subsidiary company entered into an agreement with Cellima, S.A., a Swiss company, to purchase equipment, including a waste paper conveying system, de-inking plant and cell unit. The contract was renegotiated by the company in 1992 and the final payment of $800,000 is due on shipment. An irrovocable letter of credit has been put in place for this final payment which is secured by $550,000 in restricted short term deposits, and $250,000 is secured by the Company's working capital line of credit. The company has made to date non-refundable payments totalling $92,000 which are included in deposits and prepaid expenses on the balance sheet.

5. **Mortgage Payable**

	March 31, 1992	December 31, 1991
Mortgage, which is secured by the plant, is due on May 15, 1996, bears interest at 11% per annum and is payable in monthly payments of $8,970 (blended principal and interest)	$786,000	$ -
Current portion	50,000	-
	$736,000	$ -

6. **Capital Stock**

a) **Authorized -**

Unlimited number of preference shares, issuable in series, without par value. The rights, privileges, restrictions and conditions of each series to be issued shall be fixed from time to time by the directors.

32,500 Series 'A' Preference Shares, redeemable at the option of the Company at any time at a price of $1.24 per share, redeemable at the option of the holder up to December 31, 1991, at a price of $1.24 per share and convertible at the option of the holder at any time into common shares of the Company at a price equivalent to $1.24 per common share.

Unlimited number of common shares without par value.

3,500,000 common share purchase warrants (1990 - Nil), 3,000,000 exercisable at $1.00 per share, 500,000 exercisable at $0.50 per share.

b) **Issued**

	March 31, 1992	December 31, 1991
32,500 Series A preference shares	40,000	$ 40,000
8,862,018 Common shares (1991 - 5,656,000)	9,624,000	4,546,000
3,500,000 common share purchase warrants	$ 175,000	$ 175,000
	$9,839,000	$4,761,000
Allotted -		
Nil common shares	-	$ 900,000
(Dec 31, 91 - 700,000)	$9,839,000	$5,661,000

6. Capital Stock (cont'd)

c) Changes in capital stock are as follows:

	Number Of Shares	$
Common shares issued on December 31, 1991	5,656,000	4,546,000
Allotted as December 31, 91, Issued March 31, 1992 700,000	700,000	900,000
Common shares issued through private placement	636,667	1,100,000
Common share issued in exchange for Consumers shares	1,869,351	3,078,000
Total common shares issued March 31, 1992	8,862,018	9,624,000

d) In March, 1992, the Company completed a private placement of 636,667 common shares for net cash proceeds of $1,100,000.

e) In March, 1992, the Company exchanged 1,869,351 common shares valued at $3,078,000 for 5.0 million shares of existing Consumers shareholder's shares. (see note 7).

7. Acquisition

a) On January 31, 1992, the Company reached a preliminary agreement to acquire approximately 14.8 million shares of Consumers from Consumers and certain of its shareholders. Under the terms of the agreement, DeNovo acquired 203,000 shares for cash of $100,000 and issued 700,000 new shares for 1,740,000 shares of Consumers to a related Company (note 8) up to December 31, 1991. In 1992, 6 million new shares of Consumers were acquired for cash of $1.5 million. As of March 31, $750,000 had been invested in cash and $750,000 was on deposit against an irrevocable letter of credit supporting an equipment purchase contract through to March 31, 1992. 5.0 million shares were obtained from existing Consumers shareholders in exchange for approximately 1,869,000 new shares of the Company with an aggregate value of $3,078,000. As a result of these transactions the Company holds approximately 70% of the common shares of Consumers at March 31, 1992. The Company has agreed to invest $2.5 million for 4 million new shares upon certain project milestones. This will increase the Company's ownership of Consumers to approximately 75%.

Consumers is currently developing an integrated tissue and recycled pulp plant in Alberta. The project's capital budget is approximately $45 million, expected to be financed through debt ($31 million), economic development grants ($1 million), an interest free loan from the federal government ($5 million) and equity ($8 million). The Company and Consumers are currently negotiating the terms of this financing with third parties.

As the exchange of shares and signing of the agreement were not completed until late March 1992, with effect from March 31, 1992, the Company acquired 70% of Consumers.

7. Acquisition (cont'd)

The acquisition was accounted for by the purchase method. The net assets acquired were as follows:

Net Working Capital	($1,471,000)
Fixed Assets	3,144,000
Assumption of debt obligations	(1,078,000)
Minority interests	(178,000)
Net assets acquired	417,000
Purchase price - cash	850,000
shares	3,978,000
	4,828,000
Goodwill	-
	4,411,000

8. Commitments

On December 20, 1990, (amended September 4, 1991) Consumers entered into a contract totalling $2,750,000 with Stake Technology Ltd. (Stake) for the supply of engineering services, equipment and related technology for the stream processing of waste paper to produce recycled pulp. The contract went into effect on the payment of a down payment of $62,500 plus 1,740,000 Class A shares of the Consumers at a price of $0.52 per share. In 1991, these shares were exchanged by Stake for 700,000 shares of the Company valued at $900,000. The deposit and value of the shares exchanged are reflected in fixed assets. The remaining contract will be paid with cash based on certain project milestones. Stake Technology Ltd. holds approximately 31% of the common shares of the Company and its Chairman and Chief Executive Officer is the Chairman of DeNovo Corporation.

9. United States Accounting Principles Differences

These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Under Unites States generally accepted accounting principles ("GAAP"), preference shares whose redemption is outside the control of the issuer are excluded from shareholders' equity. As a result, shareholder's equity would amount to $7,407,000 at March 31, 1992 (December 31, 1991 - $3,341,000)

DENOVO CORPORATION	208 Wyecroft Road Oakville, Ontario L6K 3T8 Telephone:(416) 849-6522 FAX: (416) 842-7325
AUDITORS	Coopers & Lybrand 201 City Centre Drive Mississauga, Ontario L5B 2T4
TRANSFER AGENT	Continental Stock Transfer & Trust Company 2 Broadway New York, New York 10004 USA
COMMON STOCK LISTING	NASDAQ
DENOVO Symbol:	DNVOF